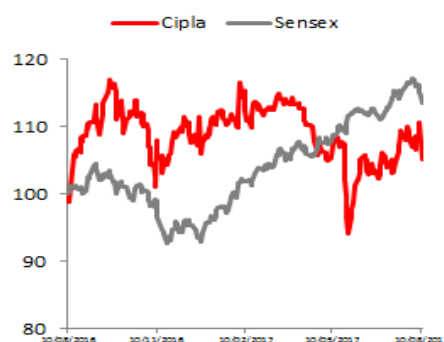



Buy on Dips

Current Price	543
Target Price	631
Upside/Downside	18%
52 Week Range	622/479

Key Share Data

Market Cap (Rs.bn)	436.69
Market Cap (US\$ mn)	68.48
No of o/s shares (mn)	804.4
Face Value	2
Monthly Avg.vol (BSE+NSE) Nos'000	1047
BSE Code	500087
NSE Code	CIPLA
Bloomberg	CIPLA IN

Price performance

% Shareholding

	Jun-17	Mar-17
Promoters	37.3	37.5
FII	21.4	23.0
DII	14.7	15.8
Others	26.6	23.7
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY15A	113,454.4	11.5	21,617.0	19.1	11,807.7	(15.0)	14.7	36.9	10.9	12.7
FY16A	136,782.7	20.6	25,010.6	18.3	15,059.2	27.5	18.7	29.0	13.1	10.8
FY17A	146,302.4	7.0	24,757.9	16.9	10,063.9	(33.2)	12.5	43.4	8.0	6.4
FY18E	163,985.2	12.1	29,367.4	17.9	15,091.7	50.0	18.8	28.9	10.9	9.4
FY19E	185,468.1	13.1	33,556.3	18.1	17,404.6	15.3	21.6	25.1	11.3	10.4

Cipla results were in line with expectations. The GST transition impacted India revenues and pricing pressure in the US resulted in business de-growth.

Operating efficiencies improve margins leading to earnings growth

Revenues de-grew 3% to Rs 3525 crs. The growth in South Africa (21%) and Europe (11%) was offset by de-growth in India (-13%), US (-2%) and ROW (-4%). EBITDA grew 6% to Rs 646 crs. EBITDA margins improved 160 bps to 18.3% due to operational efficiencies. PAT after minority interest and share of loss increased 21% to Rs 408 crs, due to improvement in EBITDA and increased other income.

Key highlights from the concall:

1. Cipla launched 4 new products in the US, in which the company has gained double digit market share. The company faced pricing pressure of 9-12% in the US market during the quarter.
2. The company filed 3 ANDA filings during the quarter, of which 2 are limited competition products.
3. Cipla launched 2 in-licensed products from Novartis in the diabetes/cardio space Indian market.
4. The company expects India business to normalize in the coming quarters.
5. The restructuring of European operations in FY17 has paid off with EU achieving profitability.
6. In South Africa, Cipla grew 21% in both tender business and private market. The private market growth was at 10.3% vs the industry average of 9.3%.
7. Cipla launched its inhaler in Australia, which is the only generic in the market.
8. Cipla launched its inhaler in UK in Q4FY17. The company expects gradual progress in the region, in view of brand loyalty to GSK.

Outlook & Valuation

We are positive on the developments at Cipla. The company has gradually achieved operational efficiencies and is building up its product base in the US. We believe its improved focus on key therapies of respiratory, oncology and anti retrovirals and key markets of US, India and South Africa will boost earnings in the long run. At Rs 543, Cipla trades at 25x FY19E EPS of Rs 21.8. We recommend investors to Buy on Dips with a target price of Rs 631.



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Particulars	Q1FY18	Q4FY17	Q1FY17	yoy %	qoq %	FY17	FY16	Var %
Net Sales	34323.2	34870.4	35561.2	-3%	-2%	146302.4	136782.7	7%
Raw Material Consumed	-11766.8	-13154.7	-13704.5			-53171.2	-51183.8	
Employee Expenses	-6729.4	-6389.2	-6865.7			-26338.2	-24470.6	
Other Expenses	-10289.7	-11213.7	-9817.9			-9817.9	-36117.7	
PBDIT	6464.6	5062.4	6112.2	6%	28%	24757.9	25010.6	-1%
OPM (%)	18.8%	14.5%	17.2%			16.9%	18.3%	
Other Income	1513.8	227.9	252			2286.9	2088.9	
Interest	-278.6	-334	-314.9			-1593.8	-1613.4	
Depreciation *	-2134.3	-6321.9	-2038.2			-13229.3	-5416.5	
Profit before tax	5565.5	-1365.6	4011.1	39%	-508%	12221.7	20069.6	-39%
Tax	-1307.7	757	-552.8			-1797.6	-4395.9	
Profit After tax	4257.8	-608.6	3458.3	23%	-800%	10424.1	15673.7	-33%
Less : Minority Interest	-161.00	10.00	-46.40			-290.30	-494.30	
Share of Profit/(Loss)	-8.60	-19.30	-21.20			-69.90	-120.20	
Other Comprehensive Income	531.40	-412.10	344.70			1672.70	0.00	
Total Comprehensive Income	4619.60	-1030.00	3735.40			11736.60	15059.20	
NPM (%)	12.4%	-1.7%	9.7%			7.1%	11.5%	
Equity	1608.8	1608.8	1607.2			1608.8	1606.8	
Number of shares	804.4	804.4	803.6			804.4	803.4	
EPS - Diluted (Rs)	5.08	-0.77	4.22			12.51	18.74	
* for Q4FY17 Includes one off impairment charge of Rs 3500 mn due to litigation and regulatory developments of certain Invagen products								



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CIPLA - Key Financials											
P&L (Rs mn)	FY15	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	113,454.4	136,782.7	146,302.4	163,985.2	185,468.1	Net Profit	11,807.7	15,059.2	10,063.9	15,091.7	17,404.6
Raw materials	(44,835.0)	(51,183.8)	(53,171.2)	(55,988.6)	(61,488.2)	Add: Dep. & Amort.	5,047.1	5,416.5	13,229.3	11,806.5	12,921.3
Employee costs	(19,736.7)	(24,470.6)	(26,338.2)	(30,288.9)	(34,832.3)	Cash profits	16,854.8	20,475.7	23,293.2	26,898.2	30,325.9
Other Expenses	(27,265.7)	(36,117.7)	(42,035.1)	(48,340.4)	(55,591.4)	(Inc)/Dec in					
Cost of sales	(91,837.4)	(111,772.1)	(121,544.5)	(134,617.9)	(151,911.9)	-Sundry debtors	(3,653.6)	(3,520.2)	(1,411.5)	(3,513.1)	(3,718.4)
Operating Profit	21,617.0	25,010.6	24,757.9	29,367.4	33,556.3	-Inventories	(8,853.6)	(274.3)	3,227.7	(6,782.5)	(5,434.6)
Depreciation*	(5,047.1)	(5,416.5)	(13,229.3)	(11,806.5)	(12,921.3)	-Loans/advances	(1,073.5)	7,383.8	(2,892.0)	(957.1)	(892.0)
PBIT	16,569.9	19,594.1	11,528.6	17,560.8	20,635.0	-Sundry creditors	5,977.1	(1,014.2)	953.2	(372.1)	1,506.7
Other income	1,655.5	2,088.9	2,286.9	2,515.6	2,767.1	-Others	2,234.4	(5,394.2)	504.5	1,163.9	1,387.3
Interest	(1,682.9)	(1,613.4)	(1,593.8)	(1,389.9)	(1,199.9)	Change in working capital	(5,369.2)	(2,819.1)	381.9	(10,460.9)	(7,150.9)
Profit before tax	16,542.5	20,069.6	12,221.7	18,686.5	22,202.2	CF from Oper. activities	11,485.6	17,656.6	23,675.1	16,437.3	23,175.0
Provision for tax	(4,000.3)	(4,395.9)	(1,797.6)	(3,363.6)	(4,662.5)	CF from Inv. activities	(9,184.2)	(48,073.8)	(13,070.9)	(7,369.3)	(16,636.5)
PAT Bfr Excep Items	12,542.2	15,673.7	10,424.1	15,322.9	17,539.7	CF from Fin. activities	1,583.6	33,488.6	(13,076.3)	(7,279.0)	(6,296.8)
Extraordinary Items	-	-	-	-	-	Cash generated/(utilised)	3,885.0	3,071.4	(2,472.1)	1,789.0	241.6
Minority Interest/ Share of Pr	(734.5)	(614.5)	(360.2)	(231.3)	(135.1)	Cash at start of the year	1,757.6	5,642.6	8,714.0	6,241.9	8,030.9
Reported PAT	11,807.7	15,059.2	10,063.9	15,091.7	17,404.6	Cash at end of the year	5,642.6	8,714.0	6,241.9	8,030.9	8,272.5
Balance Sheet	FY15	FY16	FY17	FY18E	FY19E	Ratios	FY15	FY16	FY17	FY18E	FY19E
Equity capital	1,605.9	1,606.8	1,608.8	1,608.8	1,608.8	OPM	19.1	18.3	16.9	17.9	18.1
Reserves	106,409.0	113,555.4	123,645.2	137,130.1	152,927.9	NPM	10.3	10.8	6.8	9.1	9.2
Net worth	108,014.9	115,162.2	125,254.0	138,738.9	154,536.7	Tax rate	(24.2)	(21.9)	(14.7)	(18.0)	(21.0)
Def. Tax Liab.+Minority Int.	5,122.2	13,258.2	11,951.2	12,456.7	13,032.0	Growth Ratios (%)					
Secured loans	3,092.8	2,218.8	36,453.6	31,453.6	26,453.6	Net Sales	11.5	20.6	7.0	12.1	13.1
Unsecured loans	13,924.8	50,117.8	5,122.9	5,122.9	5,122.9	Operating Profit	1.3	15.7	(1.0)	18.6	14.3
Total debt	17,017.6	52,336.6	41,576.5	36,576.5	31,576.5	PAT	(15.0)	27.5	(33.2)	50.0	15.3
Other Long term liability	405.8	1,014.2	936.5	-	-	Per Share (Rs.)					
CAPITAL EMPLOYED	130,560.5	181,771.2	179,718.2	187,772.1	199,145.2	Net Earnings (EPS)	14.7	18.74	12.5	18.8	21.6
Gross block	68,583.6	78,643.0	95,910.7	105,910.7	115,910.7	Cash Earnings (CPS)	21.0	25.5	29.0	33.4	37.7
Accumulated depreciation	(27,178.0)	(32,594.5)	(45,823.8)	(57,630.3)	(70,551.6)	Dividend	2.0	2.8	3.4	4.0	2.0
Net block	41,405.6	46,048.5	50,086.9	48,280.4	45,359.1	Book Value	134.5	143.3	155.7	172.5	192.1
Capital WIP	5,348.8	7,410.1	7,192.3	6,000.0	5,000.0	Free Cash Flow	2.9	(37.9)	13.2	11.3	8.1
Total fixed assets	46,754.4	53,458.6	57,279.2	54,280.4	50,359.1	Valuation Ratios					
Intangible Assets	1,766.4	33,777.6	27,486.3	19,348.8	19,448.8	P/E(x)	36.9	29.0	43.4	28.9	25.1
Goodwill	25,584.6	27,055.7	26,784.3	26,784.3	26,784.3	P/B(x)	4.0	3.8	3.5	3.1	2.8
Other non current assets	1,217.2	2,498.9	2,922.0	2,922.0	2,922.0	EV/EBIDTA(x)	20.7	19.2	19.1	15.8	13.7
Investments	6,397.8	7,586.9	9,747.5	16,446.6	23,983.1	EV/SALES(x)	3.9	3.5	3.2	2.8	2.5
Inventories	37,806.2	38,080.5	34,852.8	41,635.3	47,069.9	Div. Yield(%)	0.4	0.5	0.6	0.7	0.4
Sundry debtors	20,042.5	23,562.7	24,974.2	28,487.3	32,205.7	FCF Yield(%)	0.5	(7.0)	2.4	2.1	1.5
Cash & bank	5,642.6	8,714.0	6,241.9	8,030.9	8,272.5	Return Ratios (%)					
Loans & advances	10,043.3	2,659.5	5,551.5	6,508.6	7,400.5	ROE	10.9	13.1	8.0	10.9	11.3
Other current assets	1,449.2	10,753.4	9,767.2	10,743.9	11,818.3	ROCE	12.7	10.8	6.4	9.4	10.4
Sundry creditors	(15,772.4)	(14,758.2)	(15,711.4)	(15,339.3)	(16,846.1)						
Current Liabilities	(5,036.8)	(10,197.1)	(9,646.5)	(11,093.5)	(12,757.5)						
Provisions	(5,805.6)	(4,555.3)	(4,624.2)	(5,317.8)	(6,115.5)						
Working capital	48,369.0	54,259.5	51,405.5	63,655.4	71,047.9						
Deferred Tax Assets	471.1	3,134.0	4,093.4	4,334.6	4,599.9						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	130,560.5	181,771.2	179,718.2	187,772.1	199,145.2						

* Depreciation includes one time impairment charge of Rs 3500 mn due to litigation and regulatory developments of certain Invagen products



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